EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE APRIL 17, 2012 ANNUAL PENSION BOARD MEETING

1. Call to Order

   Chairman Mickey Maier called the meeting to order at 9:30 a.m. in the Grand Ballroom of the Italian Community Center, 631 East Chicago Street, Milwaukee, Wisconsin, 53202.

2. Roll Call

Members Present:	Members Excused:
Mickey Maier (Chairman)	Keith Garland
Dean Muller	Dr. Sarah Peck
Dave Sikorski	
Monique Taylor	
Patricia Van Kampen	

   Others Present:
   Chris Abele, County Executive
   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   Matthew Hanchek, Interim Director of Employee Benefits
   Dale Yerkes, ERS Fiscal Officer
   Peggy Kubricky, ERS Pension Information Systems Specialist
   Brett Christenson, Marquette Associates, Inc.
   Ray Caprio, Marquette Associates, Inc.
   Larry Langer, Buck Consultants
   Jess Henrickson, Robert W. Baird
   Cliff Henrickson, Robert W. Baird
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Linda Bedford, Prior Pension Board Member
   Marilyn Mayr, Prior Pension Board Member
   Guy Stuller, Prior Pension Board Member
   Bruce Richardson, Prior Pension Board Member
   Milwaukee County Retirees and other attendees

3. Pension Board Chairman Remarks

Matt Hancheck introduced Pension Board Chairman Mickey Maier. The Chairman first noted the passing of Dr. Dean Roepke, a former chair of the Pension Board and longtime County employee who retired a few years ago. The Board is saddened by this loss.

The Chairman next noted the changes to the composition of the Pension Board as a result of recent Ordinances passed by the County Board. To recognize his service, the Chairman presented a plaque to Guy Stuller, a longtime member of the Pension Board, first serving multiple terms as an elected employee member, then as an elected retiree member. The Chairman thanked Mr. Stuller for his service, stating that Mr. Stuller fought hard for the issues he believed in. Since Mr. Stuller will not complete the current term, an election will be held for the open retiree position.

The Chairman continued by recognizing Linda Bedford, who also served multiple terms, including as Vice Chair, after having been appointed by the County Executive. The Chairman presented Ms. Bedford with a plaque, thanking her for her patience in staying with the Board and serving beyond term, and noting the leadership Ms. Bedford demonstrated over the years. The County Executive will fill Ms. Bedford's vacant position at some point in the future.

The Chairman concluded by stating that the primary responsibility of the Pension Board is to ensure that the people who are entitled to receive pension benefits get those pension benefits, and that funds are invested prudently to support this pension obligation.

4. Benefit Administrator Remarks

Mr. Hanchek introduced himself as the Employee Benefits Administrator for Milwaukee County, responsible for the administration of the County's health benefit and pension plans.

Mr. Hanchek discussed ERS accomplishments for 2011, beginning with the changes to ERS leadership. Marian Ninneman replaced Gerry Schroeder as ERS Manager after Mr. Schroeder's retirement in July 2011. Prior to becoming ERS Manager, Ms. Ninneman served as a leader in both the life and health areas working with ERS staff in a number of roles. Under Ms. Ninneman's leadership, ERS implemented quality control initiatives and improvements to day-to-day processes.

Mr. Hanchek then stated that he replaced Gerry Schroeder as the Interim Director of Employee Benefits beginning in July 2011. The 2012 adopted budget brought about organizational changes in Milwaukee County, and the Employee Benefits division was moved back under the Department of Human Resources. As a part of that transition, the Director's position was replaced by a Benefits Administrator position, but serves relatively the same purpose. Prior to this role, Mr. Hancheck served as the Life and Health Benefits Manager.

Mr. Hanchek then noted Peggy Kubricky, a Pension Information Systems Specialist whose position was added in June 2011, which marks ERS's commitment to developing internal technical opportunities. ERS updated its systems and processes to make sure that it has the most up-to-date system possible with state-of-the-art controls so that monthly checks go out as efficiently and accurately as possible. Ms. Kubricky played a crucial role in finding and managing the V3 system.

Mr. Hanchek stated that ERS successfully processed over 517 new retirees in 2011, roughly double the normal annual amount. ERS staff also administered approximately $168 million in benefit payments. This successful service to ERS members during leadership turnover and other difficult conditions truly credit the dedication and hard work of the ERS staff. Through staff evaluations and meetings, ERS will continue to examine its practices to provide members with the best possible service.

Mr. Hanchek then noted that the transition of leadership within ERS was partially counterbalanced by the continuity of support from vendors. In 2011, the Pension Board evaluated firms for actuarial services for ERS. After an extensive evaluation process, the Board chose to retain the services of Buck Consultants, and ERS leadership looks forward to continuing that relationship.

Mr. Hanchek continued by stating that another 2011 initiative was the co-development project. Since the addition of the V3 system in 2009, there have been a number of maintenance updates that required changes to the system. In April of 2011, ERS implemented a co-development process project, which transfers the process of making the changes from the programmers at Vitech, the company that houses the V3 system, to in-house consultants at ERS. Ultimately, the work is done more quickly and efficiently, and at a cost savings. Over $500,000 in net savings has occurred since project inception, which results in direct savings for the Plan. Additionally, the number of pending change orders is significantly reduced, and ERS's goal for 2012 is to further reduce number that to zero.

Mr. Hanchek then addressed ERS audits. ERS completes internal and external reviews to ensure that everything ERS processes is accurate and that the Plan is compliant with all applicable regulations and laws. ERS continued an ongoing review to assure that ERS is in accordance with the Internal Revenue Code to preserve its tax qualified status. Additionally, the majority of required corrections discovered as part of the OBRA audit have been completed.

Mr. Hanchek then introduced the individual members of the Board, stating that the Board played a key role in ERS's success by adding support for systems resources, correcting investment activity in the trust, and providing guidance. Mr. Hanchek also personally thanked Ms. Bedford and Mr. Stuller for their longtime service to the Board.

Mr. Hanchek stated that in addition to the Pension Board, ERS also receives assistance from the Investment Committee and the Audit Committee. The Investment Committee helps with the overall investment strategy of the Fund. In 2011, the Pension Board terminated the Reinhart Partners Mid-Cap Growth fund and transferred the funds to iShares IWP ETF in 2012. Additionally, the Pension Board terminated the ING Clarion Global REIT portfolio and used those proceeds to fund UBS Trumbull Property Fund in 2012. Despite challenging market conditions, ERS achieved a 0.4% rate of return, ending with over $1.71 billion in total assets. The Pension Board will continue to work with its investment managers to achieve higher and more consistent investment returns.

Mr. Hanchek then noted that the proceedings of the Pension Board and its committees are made public. The minutes of the monthly meetings provide a detailed record of actions taken. These minutes, as well as ERS rules and policies, are available on the County's website at www.county.milwaukee.gov/retirement.

Mr. Hanchek concluded by stating that despite the challenges of 2011, improvements to quality control and steps to enhance the operational efficiency were made. Retirement volume and inquiries regarding potential retirements have been higher than any year in history. ERS will continue to challenge its staff to maintain its standard of prompt, professional service to members. While the investment climate has been volatile and difficult, through stewardship by the Pension Board, ERS was able to report positive growth for the year. There will be challenges in 2012; all areas of County government will be asked to do more with less. However, quality, efficiency, and dedication of staff will allow ERS to succeed. The stewardship of Plan assets will allow ERS to remain stable and well-funded.

5. <u>County Executive Remarks</u>

Mr. Hanchek introduced Milwaukee County Executive Chris Abele, elected on April 6, 2011. Previously, Mr. Abele was a business owner, spending much of his career in Milwaukee and giving back to the community as CEO of the Argosy Foundation, a non-profit company that builds partnerships and improves communities by offering programs in the arts, environment, education, and health and human services. Additionally, Mr. Abele served the Boys and Girls Club of Greater Milwaukee, where he earned the organization's Most Valuable Person award for his efforts to develop a comprehensive 10-year plan to help address the problems facing Milwaukee's youth. As a civic leader, Mr. Abele partners with local officials and community leaders to strengthen important Milwaukee institutions to make Milwaukee County a more vibrant and quality place to live and to visit. County Executive Abele lives in Milwaukee with his wife, Miriam, and their two young daughters, Lauren and Katherine.

Mr. Abele first stated that he decided to run for public office because he cares about where he lives. One of the most toxic things in the United States currently is the way people think about public service and the government. Government does extraordinary things for people in this country, but it can do better. Mr. Abele feels privileged to have been elected last year, but inherited a structural deficit of $55 million. Additionally, the State cut its share in revenue and created significant long-term liabilities. In his first year of service, Mr. Abele collaborated with more municipalities, and in a friendlier way, to add value to the services the County creates and to reduce the cost of delivering those services. At the end of the year, the County presented a budget without a deficit, without furlough days, without raising taxes, and with a $1 million surplus to pay down debt. The central function of any government entity is to empower the citizens it serves and to do so in an efficient and sustainable way. The County works hard to bring in staff and management that care about the County and know that change can be made for improvement. This year started in a great position; a better position than last year.

Mr. Abele continued by stating that the biggest external threat today is the economy. As unemployment rises, many of the County-provided services are directed towards the unemployed. The price of gas has an enormous impact on the County because transit is a large part of the budget, and it has an impact on everything from the sheriff's department to the airport. The weather also has a big impact; mild winters equate to less plowing, less sanding and salting, less road repair, and more rounds of golf year-round. There is new leadership on the board of supervisors, and Mr. Abele believes the new County Board chair is a great addition. There will be many opportunities to continue change and reduce deficiencies and work more with others.

Regarding the privilege of taxpayer money with which the County is entrusted, Mr. Abele stated that when it comes to tax dollars, more frustrating than inefficiency is the avoidance of or disregard for the law. There are still opportunities to improve accountability for County use of taxpayer dollars. This year, the County centralized all procurement of the budget. This means that rather than a number of departments and divisions doing their own purchasing, there is one office that will oversee it. The contracts which are written are standardized in a way that protects the County and its taxpayers. Additionally, a comptroller bill was passed. For the first time, there is an independently-elected Comptroller this year. The function of this office is to certify the cost of expenses and interest rates, and all assumptions about the budget process. In the past, the County Executive's office created a budget that included assumptions on revenue and expenses, and the County Board would then put together its version including its own assumptions. Right out of the gate there were differences in opinion on money. These two changes together show enormous progress and are the biggest structural changes in the County in the last ten years. They will not be the last. The County may be wrong in its assumptions at times, but County Executive Abele promises that the County will not make the same mistake twice. The County will acknowledge mistakes and learn from them because big changes need to be made. The good news is that there has never been more openness in political leadership, especially in Milwaukee. Mr. Abele has a great relationship with both the mayor and the governor, which promotes working together to focus on and solve problems as opposed to seeking ways to score points off one another. Additionally, it promotes collaboration and agreement across parties, and helps to hold people in public office accountable for their actions.

Mr. Abele concluded by stating that what he addressed today is largely related to the most important asset of any organization: its people. When there are good people, they should be treated well. Expectation and accountability should be clarified when they do not work and rewarded and celebrated when they do work. When people are proud of where they work and feel their work is meaningful, anything can be accomplished. The County has made progress along those lines and is happy to see many people involved with moving toward positive change for Milwaukee County.

In response to a question, Mr. Abele stated that when given a chance to speak publicly, he makes it a point to talk about the good work that other people are doing to show his pride in Milwaukee County and to provide examples for others. Milwaukee is his home for life and if there is one thing Mr. Abele could change, it would be the cynicism which people focus on what is currently broken. While there are definitely problems to address, Mr. Abele stated that there must be a willingness to talk about the issues, to accept that progress is being made even when it does not seem possible. Milwaukee has some extraordinary things; the park system won a national gold medal, the airport is the envy of many cities around the country, the hardest working workforce can be found here, volunteerism is high, and there are some very good schools. If they were talked about more, it would be easier to recruit and attract the sort of people who want to live here.

Mr. Abele continued by stating that another issue is the legislature. While Madison is a fine town, Milwaukee is the economic engine of the state. If jobs needed to be created, the best place to do so is Milwaukee. The State legislature typically cuts funding for the City and County of Milwaukee, and the County is working to change that attitude.

A question was then raised about the adopted budget for 2012 being particularly hard on retirees with the changes to the co-pay on drugs and co-insurance and Medicaid, and whether the County could do anything to rectify that issue. Mr. Abele stated that anytime an organization with so many departments starts out with an enormous deficit, there is no way to resolve a problem that would please everybody in the short term, and that tends to exacerbate the issue. All issues are important in some respect, but part of every decision is making sure there still is a viable, strong County for the next generation. Requests for additional funding were repeatedly made but often ignored from lawmakers in Madison. For example, UW-Milwaukee per student receives a lot less funding from the state than UW-Madison. While UW-Madison is an important institution, Milwaukee has the highest population and therefore has the greatest need. All issues combat each other and there will be tough decisions to make, as there were with the 2012 budget. However, the most exciting part of change is getting more efficient in how services are delivered, so it is not just about cutting services. Rather, it is about getting smarter and making progress.

6. ERS Fund 2011 Results, Asset Allocation Strategy and Update—Marquette Associates

Mr. Hanchek introduced Brett Christenson of Marquette Associates.

Mr. Christenson stated that Marquette Associates is an independent investment consulting firm based in Illinois. Marquette does not manage any money but acts strictly as an advisor to the Board by providing data and reporting to help make the best investment decisions possible. Marquette's focus is to get the best returns for the least amount of risk, to drive investment costs down as much as possible, and to find the highest quality managers. Marquette's mission is for its clients to become more effective stewards of the assets. The Trustees work very hard, spending many hours focusing on the investments of the Plan and meeting every month at the Board level and at the Investment Committee level.

Mr. Christenson first noted the major changes to the Pension Plan in 2011. First, the asset allocation, or what percent of money is in stocks and bonds, real estate, and so on, was adjusted. Private equity was increased from 3% to 6%. Second, a search was recently completed for another private equity manager. Third, an equity manager was terminated and a search is in process for a replacement manager. Fourth, live education was continually conducted to review the markets. Fifth, the Investment Policy was updated. Finally, in 2010, three real estate managers were hired. It takes a long time to fund a real estate manager, and the manager already in place at that time, ING Clarion, was not up to quality standards. In 2011, all three of the new real estate managers were fully funded, and ING was terminated.

Mr. Christenson then discussed market values at the end of 2011. The total portfolio is $1.7 billion. Fixed income, the high-quality bonds, makes up $477 million of the portfolio. Currently, bonds have a very low interest rate and yields are about 3% to 4%. Even with current volatility, bonds hold up in the market and are an anchor to the portfolio, which is needed to provide safety to the Plan. U.S. equities are about $400 million and international equities, or stocks, are about $300 million, and the most volatile piece of the investment pool. Over the long term, however, they should provide a 9% or 10% return. Smaller pieces of the Plan include long/short stocks, real estate, infrastructure, and private equity. These are alternative asset classes that provide a lot of diversification to the Plan when the markets fluctuate. The last piece of the Plan is a cash allocation to pay benefits.

Mr. Christenson stated that it is important to look at what other public pension plans across the country are doing with their investments. Overall, the Plan historically has been more conservative with lower volatility and risk than the peer group. In U.S. stocks, a volatile asset class, the ERS Fund is at about 23% investment allocation as compared to

36% for its peer group. International equities, or non-U.S. stocks, is at 18% versus 13%, so the Fund is a little more aggressive overseas. Between the U.S. and the international stocks, however, the Fund is still more conservative than the peer group. Fixed income is at 28%, with the peer group coming in at 32%, but Marquette is trying to underweight fixed income because interest rates are still so low.

Mr. Christenson next discussed the historical returns of the Fund. Fiscal year returns have declined over recent calendar years and the 2011 Plan is just slightly up at .4%. The market has been volatile; in 2010, the Plan was up 12.2% and in 2009, up 18.6%, so the Plan is just coming off a 31% accumulative return, but that followed 2008 when the Plan was down 22%. The volatility is expected to continue in 2012, but the Fund is already up over 6.5% for the first quarter.

Mr. Christenson stated that positive contributors to returns include the real estate portfolio at 14.1%, though real estate only makes up about 6.7% of plan assets. Fixed income, at 28% of the Plan, was up 7.4%. The infrastructure portfolio, which includes real assets like bridges, toll roads, and ports, was up 6.2% and makes up about 7.7% of the Plan. The private equity portfolio was at 5% through the third quarter. Marquette expects those returns to come in higher at the end of the year. Negative contributors include the U.S. equity portfolio, down 1.1%. The long/short equity portfolio was down 4.4%. The biggest drag on the portfolio overall was the international portfolio, down 13%.

Mr. Christenson next discussed asset class performance. Marquette benchmarks every asset class, and if an asset class is not performing, the managers of that asset class are reviewed to see if potential changes need to be made. For example, though the real estate portfolio was up 14.1%, the benchmark of 15.2% was not met. This underperformance can be attributed to ING, who was funding the value of the portfolio through November and had a 0% return while the other managers were up 14% to 17%. ING has since been removed to improve the performance of the real estate portfolio. Fixed income came in very close to its benchmark of 7.8%, but the U.S. stock portfolio was a disappointment, down 1.1% with a benchmark closer to 1%. This can also be attributed to a fund manager, but there was also an overweight to small- and mid-cap stocks. Finally, the international equity portfolio yielded a disappointing return of -13%. However, the benchmark was down 13.3%, so the portfolio performed in line with expectations. Marquette always wants positive returns or at least for the portfolios to beat the benchmark.

Mr. Christenson then discussed the importance of risk. While an 8% rate of return is always desired, the return must be balanced with the risk in order to reduce volatility. The ERS Fund has consistently ranked in the top half of its peer group in terms of making sure the Plan has very low risk as it manages that return.

Mr. Christenson stated that the Plan has several managers in each asset class to diversify and ensure steady returns. In the U.S. portfolio, there are currently five managers, and a search is being conducted for a sixth. There are two managers in international equity, each with two different products. In private equity, there is one manager and a search is being conducted for a second.

Mr. Christenson concluded with a discussion on volatility in the market. In the first quarter of 2011, the U.S. stock market was up 5.9%, which was a very strong return. In the second quarter, the U.S. stock market was flat at 0.1%. However, between the beginning of the first quarter and the end of the second quarter, the stock market showed some of the highest volatility seen in the stock market for many years. In the third quarter, the bottom fell out with the stock market losing almost 14%, but then finishing in the fourth quarter up 11.8%. Part of the reason why the Plan is up over 6.5% so far in 2012 is because the stock market is up 12.6% for the first quarter, which is great news. This tremendous volatility can be attributed to the financial crisis, which some consider a great recession. The market, the economy, and people are still sorting through the mess and trying to find footing. This aftermath is what creates a lot of this volatility in the market. However, the U.S. economy is starting to find stable ground, and market results are becoming more positive and less volatile. Though there is still some struggle overseas and in Europe because of a lot of debt from various countries, recovery is starting to occur. One remaining problem is the very low interest rates. In a low interest rate environment, it is difficult to find yield and to find return. This is one of the reasons why the Fund is so diversified in so many different asset classes. If the market is not moving in one area, it will move in another.

7. <u>ERS Actuary Remarks—Buck Consultants</u>

Mr. Hanchek introduced Larry Langer of Buck Consultants, the actuary for ERS. Mr. Langer provided an overview of the responsibilities of an actuary and of the 2010 Plan Year, as well as expectations for the 2011 Plan Year.

Mr. Langer first stated that Buck Consultants serves as the actuary for ERS. The Milwaukee County Retirement System has a pension fund that pays out when a member retires, becomes disabled, or dies. It is not known what contributions are necessary for a traditional pension plan over the course of time, unlike other plans, such as a 401(k) type plan where the contributions going into the plan are easy to compute. Therefore, an actuary is needed to help determine how much money the County must put into the pension plan over the course of the members' careers so sufficient funds exist to pay the pension. The process an actuary uses to determine these costs is called an actuarial valuation. Member data, asset data, and benefit provisions are collected to allow an actuary to estimate how much money should be put aside for each member. Demographic assumptions are then made, such as whether members will reach retirement or how long members will collect their pensions after they retire. Economic assumptions are also made, and those pertain to the type of investment return the fund will receive over decades. Currently, an 8% rate of return is used, which is consistent with retirement systems across the country. Finally, the employer contribution, or what the County puts in the Retirement System to make sure that pensions are sufficiently funded upon retirement, and funded status, or current assets compared to needed assets, are reviewed.

In response to a question about the $400 million the County borrowed to put into the Retirement System, Mr. Langer stated that the money is being paid back over a 25-year period, or roughly $30 million per year. The funds were put into the Retirement System beginning in March of 2009 and returns since then have exceeded 8%. The timing was very beneficial in terms of securing more pension benefits over time.

Mr. Langer then discussed the 2010 valuation report and the events that affected it. The actual investment return was 11.7%, better than 8% but contributions did not increase as much as anticipated as a result. Additionally, there were a series of plan amendments starting in 2010 and continuing through 2011. For active members, the normal retirement age was pushed back to age 64 from age 60. The benefit multiplier was reduced from 2% of the final average salary to 1.6%. Finally, contributions are now required of most members. Because of these amendments, over the course of time, the County has to contribute less into the Retirement System for benefits accruing.

Mr. Langer then provided expectations for the 2011 Plan Year, which include a 0% preliminary return on assets compared to the 8%. Liabilities will be calculated in late spring of 2012, there will be no changes in funding methodology, and the implementation of the plan amendments will continue. While returns are erratic, benefits are secure.

In terms of ERS member demographics, Mr. Langer stated that the active population continues to decline while the retiree population has stabilized, which means the benefits in the Fund are decreasing and fewer payroll members are contributing. Additionally, the market value as of December 31, 2011, is $1.73 million, with an estimated return of 0.4%. When compared to a valuation return of 8% per year, the difference will result in a lower funded ratio, which will require an increase in contributions. Accrued liability, or the amount of funds that ideally should be in the ERS Fund, is approximately $2 billion. While the actual Fund is lower, it is common in the U.S. for plans to be underfunded right now. An important thing to remember is that markets were not very strong in 2008; the $400 million contribution from the County greatly improved the benefit security of ERS. Sufficient assets are available to pay current retiree benefits. Additionally, the amount of assets to cover all liabilities is expected to be between 80 and 85%, which is above the national average for large public plans at 77%.

Mr. Langer continued by discussing a 5-year history of the actual funding contribution, excluding the $400 million County contribution. These contribution amounts are stabilizing to between $20 million to $30 million. Roughly $20 million relates to the cost of benefits accruing in the Plan for current active members. With the provisions put in place over the past years, that $20 million has decreased to about $16 million, with the remainder going toward paying off compounded liability, or the shortfall between what should be in the Fund and what is actually in the Fund. There is a significant amount of contributions that the County is putting in to pay off other liabilities. Additionally, current employees are putting in approximately 1/3 of the overall contributions. The County is up-to-date on its contributions.

Mr. Langer concluded by reiterating key points: there are sufficient assets in the ERS Fund to pay all projected benefits for current retirees; the $400 million County contribution ensured the stability of the ERS Fund; future benefit accruals under ERS will be roughly 80% less than they were two years ago; active members are contributing about 1/3 of the total contribution requirement; a continuation of funding will be required to maintain actuarial health; and the Board is very diligent in terms of making sure the right things continue to happen and paying attention to actuarial recommendations.

In response to a question about previous member contributions that have since stopped, Mr. Langer stated that Act 10 was not an actuarial recommendation but a government sponsor decision. The majority of public members do make contributions, unlike the corporate world where very few members contribute to their defined benefit pension plans.

In response to a question about potential studies on the impact of non-contribution amounts throughout the 1980s and 1990s, Mr. Langer stated that he was not aware of a study. While it can be informative to look back on certain events, an actuary tends to look at what is going on right now. Currently, ERS is better funded than the average plan across the country.

In response to a question about public and private employees in terms of contributions, Mr. Langer stated that in 1977, certain member contributions to the Fund ceased, the effect of which could be seen as a sort of wage increase. This is also seen in the public world when contributions are pulled back, which results in more money in the employee's pocket. However, member contributions are not found in the corporate world, just as 401(k) plans are not often found in the public sector.

In response to a question about 401(k) plans, Mr. Langer stated that a 401(k) plan is not a pension plan. The basic element of a pension plan is that it pays benefits for life, and a 401(k) plan does not.

In response to questions about the actuarial rate of return and how it affects employees looking to retire, Mr. Langer stated that the rate of return should be reviewed every five years in terms of what can be achieved over the next 30 to 50 years, and the next review will occur in July 2012. The current average assumed return across the country is around 7.9%, which is very close to the 8% used for ERS. If the assumed rate of return decreases, the amounts credited in a backDROP lump sum benefit payment would decrease. The decision would be made this summer but would not be effective until

January 1, 2013, so potential retirees would have time to include that in their decision to retire.

In response to a question about what would happen if the County moved to a defined contribution plan for future members, Mr. Langer stated that the defined benefit component of the plan would still be funded over a shorter period of time to ensure that the Fund is fully-funded by the time the last active member dies.

8. <u>Coping with Volatile Markets—Robert W. Baird Remarks</u>

Mr. Hancheck introduced Jess Henrickson, Financial Advisor, and Cliff Henrickson, Senior Vice President of Investments, both of Robert W. Baird. Combined, the two have 35 years of investment experience.

Mr. Henrickson first stated that their primary responsibility is to help people invest wisely so that they do not outlive their assets. There is a lot of emotion involved with investing, and investment advisors work with clients to separate out that emotion and develop and monitor a plan for a financially secure future.

Mr. Henrickson then discussed bear markets, defined as a 20% drop in the market, such as in the S&P 500. Many refer to the returns from 2000 to 2011 as the lost decade and say that the market was flat. However, while the market may have started and ended in roughly the same position, it was anything but flat in between. It is important to remember that markets historically recover after sharp downturns and that volatility is a normal part of investing. The trailing 12-month period for February 2009 yielded a very poor return of 43.3% in the negative, but the next year yielded a return of over 53%. In September 1974, the trailing 12-month return was 38.9% in the negative, while the following five-to-ten year returns were over 15%. Markets do recover.

Mr. Henrickson stated that there are rewards to long-term investment. For the annual total returns for the S&P 500 from 1926 to 2011, the market was positive more than it was negative, yielding a return of 20% or more. To provide perspective and keeping in mind ERS's current average return expectation of 8%, the average return expectation for the S&P 500 over this 86 year period was 9.77%. Not once, however, did it actually return 9.77%. Over this period, 52% of the time the market had a return of 12% or greater, which is significant, and 27% of the time the market was negative.

Mr. Henrickson then provided tips for alleviating market volatility anxiety. The first is to stay the course and remember the long-term goals. Second, invest for the long term. Third, consider a diversified portfolio. Finally, consider asset allocation. There are a range of emotions that people experience when investing, but the need in the end is to have a long-term, disciplined plan. When it comes to investments, it is not the timing of the market, but rather the time in the market. Annualized total returns from 1981 through 2011 were just under 11%. If a person invested in the S&P 500 during that time, a 10.9%

return is what would have been realized. However, if just the best months were missed, the return would have been closer to 9%. If 20 months were missed, the return would have dropped to 4.72%. In terms of time in the market, a person really has to be right twice—when getting in to the market and when getting out of the market. Historic events play a big role in the market and affect its rise and decline; for example, the Depression, Vietnam, the building of the Berlin Wall in 1962, and the events of September 11. Again, though, markets do recover.

Mr. Henrickson then discussed the annual returns of key asset classes from 1991 through 2011 and the importance of diversifying. Using fixed income as an example, it was the top performer in 2011. However, in 2006, fixed income performed poorly. It was again on top in 2008, but then followed that up with poor performance in 2009 and 2010. There is no consistent flow of any asset class or market segment, so it is critical to diversify a portfolio. Additionally, approximately 94% of the market return is determined by asset allocation rather than market timing.

Mr. Henrickson concluded by discussing dollar cost averaging, which involves investing consistent dollar amounts at regular intervals and buying more shares when the share price is down and buying fewer shares when the share price is up. For example, if a stockholder invests $500 per month in a stock for six consecutive months, regardless of market condition, average share cost is less than the average share price at the end of those six months. Dollar cost averaging helps reduce the risk in volatile markets because costs are lower and dollars are invested when the market surges. Additionally, it reduces anxiety associated with investing because most people buy and sell at the worst times.

9. Questions and Answers

The Chairman called for questions and answers from those assembled.

In response to a question, the Chairman confirmed that index funds are used by ERS both to fill particular asset class investment slots and as benchmarks for managers.
Mr. Christenson also stated that cost is one of 3 main focuses for Marquette. Index funds do drive down the cost of the portfolio, and Marquette feels there is a good balance between index funds and managed funds in the portfolio.

In response to questions about the lack of paper handouts and the difficulty in reading small print in the projected presentation slides, Mr. Henrickson apologized for the oversight and stated that if he is invited to present in the future, he will provide paper copies. Mr. Hanchek stated that ERS will post copies on the County website.

In response to a question about flash reports, the Chairman stated that they are posted monthly on the County website.

10. Adjournment

The meeting adjourned at 11:30 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board